

MILLCREEK TOWNSHIP SCHOOL DISTRICT

ERIE COUNTY, PENNSYLVANIA

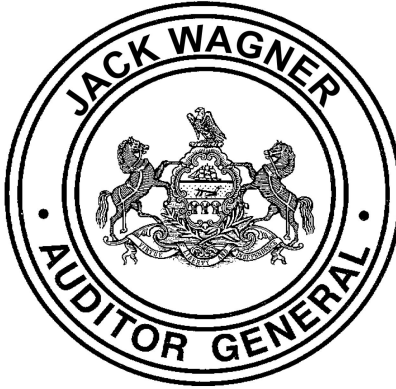
AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

WITH FINDINGS, OBSERVATION AND RECOMMENDATIONS

THROUGH DECEMBER 10, 2004





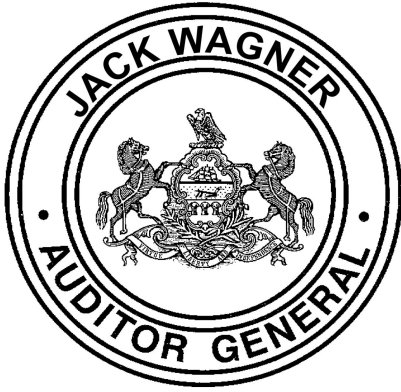
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ERIE COUNTY, PENNSYLVANIA  
AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2002 AND 2001  
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THROUGH DECEMBER 10, 2004



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
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The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

We have audited the operations of Millcreek Township School District for the years ended June 30, 2002 and 2001. Our objectives were:

- to ensure that the district received the funds to which it was entitled from the state;
- to determine if the district complied with state laws, regulations, contracts, and grants governing such entitlement and other state laws and regulations falling within the scope of our audit; and
- to determine if internal controls were adequate to help ensure the district's compliance with state laws and regulations governing such entitlement and other applicable laws and regulations falling within the scope of our audit.

In addition, we audited professional employees' certification for the period July 1, 2002 through July 31, 2004. Our objective was to determine if all administrators and teachers were properly certified for the positions they held.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States of America. In completing the audit, we evaluated and tested documents, files, reports, agreements, systems, and procedures that we considered necessary. We also interviewed selected administrators and operations personnel.

Our audit, required by 72 P.S. § 403, was limited to the areas of Millcreek Township School District's operations relating to the objectives identified above.

Independent Auditor's Report (Continued)

Solely to assist us in planning and performing our audit, we made a study and evaluation of the internal controls of Millcreek Township School District. Our audit was made for the limited purposes described above. Accordingly, we do not express an opinion on the internal controls taken as a whole.

The results of our tests indicate that certain weaknesses, as further discussed in the findings in this report, should be corrected. These weaknesses were factors in the district's noncompliance with certain regulations. We believe our recommendations, if implemented by the district, will help ensure compliance with applicable state laws and regulations and the appropriate entitlement of funds from the state.

In addition, our audit disclosed problems related to the district's agreement with the National School Fitness Foundation, as detailed in the observation beginning on page 26 of this report.

This report is intended solely for the information and use of management, Millcreek Township School District's Board of Directors, and Commonwealth agencies in determining the district's entitlement to funds received from the state and its compliance with state laws and regulations governing such entitlement and other applicable state laws and regulations falling within the scope of our audit. This report is not intended to be used for any other purposes and should not be used by anyone other than these specified parties.

December 10, 2004

JACK WAGNER  
Auditor General



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
ERIE COUNTY, PENNSYLVANIA  
AUTHORITY AND BACKGROUND

**Authority**

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code of 1949, as amended.

**Background**

The district, located in Erie County, encompasses an area of approximately 29 square miles. It has a population of 52,129, according to the 2000 federal census. The administrative offices are located at 3740 West 26<sup>th</sup> Street, Erie, Pennsylvania.

During 2001-02, the district provided basic educational services to 7,334 pupils through the employment of 24 administrators, 486 teachers, and 362 full-time and part-time support personnel. Special education was provided by the district and the Northwest Tri-County Intermediate Unit #5. Occupational training and adult education in various vocational and technical fields were provided by the district and the Erie County Technical School.

Expenditures for the years ended June 30, 2002 and 2001 were \$62,353,362 and \$56,510,682, respectively. Revenues supporting these expenditures were derived from local, state, and federal sources. Local revenues for 2001-02 were primarily based on a 13 mill real estate levy, a \$5 occupational privilege tax, a 1/2 percent earned income tax, a 1/2 percent real estate transfer tax, and a \$125 mechanical device tax.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
BACKGROUND

**Description of State Revenue Received**

Basic Education

Revenue received from Commonwealth appropriations as subsidy for basic education.

Read to Succeed

Revenue received from the Commonwealth to ensure that all students learn to read and write by the end of the third grade.

Charter Schools

Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

School Performance Incentives

Revenue received from Commonwealth appropriations to reward significant educational and school-specific performance improvements as measured by improvements in student attendance and student accomplishments.

Tuition for Orphans and Children Placed in Private Homes

Revenue received from the Commonwealth as tuition for children who are orphans and/or children who are placed in private homes by the court. Payments are made in accordance with Sections 1305 and 1306 of the Public School Code.

Homebound Instruction

Revenue received from the Commonwealth as subsidy for expenses incurred for instruction of homebound pupils. Payments are made in accordance with Section 2510.1 of the Public School Code.

Vocational Education

Revenue received from the Commonwealth as subsidy for vocational education expenditures which are classified as current operating expenditures and also for preliminary expenses in establishing an area vocational education school. Payments are made in accordance with Sections 2502.8 and 2507 of the Public School Code.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
BACKGROUND

**Description of State Revenue Received (Continued)**

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Driver Education

Revenue received from the Commonwealth as subsidy for conducting a standardized driver education program. Payments are made in accordance with Section 2504.1 of the Public School Code.

Migratory Children

Revenue received from the Commonwealth as subsidy for the attendance of migratory children in accordance with Section 2502 (Act 341 of 1959) and Section 2509.2 of the Public School Code.

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

Transportation

Revenue received from the Commonwealth as subsidy for pupil transportation expenditures and/or board and lodging in lieu of transportation. Payments for pupil transportation are made in accordance with Section 2541 of the Public School Code. Payments for board and lodging in lieu of transportation are made in accordance with Section 2542 of the Public School Code. This revenue also includes subsidy for the transportation of nonpublic and charter school students.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and Act 25 health services.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
BACKGROUND

**Description of State Revenue Received (Continued)**

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Technology Grants

Revenue received for technology initiatives that allow the schools to develop new information technology projects, such as upgrade of networks or improved computer hardware and software.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

The findings, observation and recommendations were reviewed with representatives of Millcreek Township School District, and their comments have been included in this report.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 – Unrecovered Tuition Totaling \$372,906**

Our prior audit disclosed that tuition was not billed for nonresident students from the School District of the City of Erie who attended the Millcreek Township School District’s alternative education program at its North Coast School, and that tuition for nonresident students attending from other districts was billed at rates other than the rate that the Public School Code (PSC) mandates (see Finding No. 1 in the “Status of Prior Years’ Findings and Recommendations” section of this report). Our current review of the district’s 2001-02 and 2000-01 tuition billings disclosed that the district again failed to bill the School District of the City of Erie tuition totaling \$361,226, and two other districts were under billed a total of \$11,680, as follows:

	<u>2001-02</u>	<u>2000-01</u>	<u>Totals</u>
School District of the City of Erie	\$188,665	\$172,561	\$361,226
Wattsburg Area School District	9,670	711	10,381
Iroquois School District	<u>1,299</u>	<u>-</u>	<u>1,299</u>
Totals	<u>\$199,634</u>	<u>\$173,272</u>	<u>\$372,906</u>

A nonresident student is a student educated by the district whose parents or legal guardian reside in another district. Section 2562 of the PSC provides, in part:

For each elementary or high school pupil attending a public school of another district, the receiving district shall bill the sending district, and the sending district shall pay the amount of the tuition charge.

Section 2561 of the PSC provides the method of computing the tuition rate that the educating district is to charge the home district of the nonresident student. This section identifies all operating expenditures that should be considered in determining the amount to charge the home district for pupils attending the educating district.

District employees informed the auditors that the School District of the City of Erie pays no tuition charges for Erie students attending the North Coast School. In lieu of tuition, the School District of the City of Erie provided classroom space for the North Coast School. Furthermore, the administration stated that this cooperative effort was funded by a consolidation incentive grant. In a written statement provided by the administration, it was stated that both districts realized savings from the agreement. Although a final report and evaluation of the administrative consolidation incentive grant between Millcreek Township School District and the School District of the City of Erie was made available to the auditors, savings for the North Coast School were not specified. It should also be noted that the North Coast School was in operation for several years prior to the cooperative agreement.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 (Continued)**

Wattsburg Area School District and Iroquois School District were billed for students who attended the North Coast School at a rate less than the approved secondary tuition rate mandated by Section 2561 of the PSC.

On August 25, 2003, the Millcreek School District and the Global Academy Charter School entered into an agreement that put the North Coast School under control of the charter school. The North Coast School facility was moved out of the School District of the City of Erie into a building in the Millcreek Township School District. All tuition for nonresident students attending North Coast School is now administered by the charter school and properly based on the prevailing charter school tuition rate.

Recommendations

The board should require district personnel to bill all nonresident students' districts of residence for educational services provided by the district at the approved tuition rate provided under Section 2561 of the PSC for school years 2001-02 and 2000-01, and also for the subsequent year if not already done. Also, district personnel should familiarize themselves with the PSC regarding nonresident student tuition.

Response of Management

Management indicated its response was the same as the board response to the finding in our prior audit, as follows:

The Millcreek Township School District (hereinafter "Millcreek") disagrees with the conclusions reached by the Auditor General in Finding No. 1 . . . Millcreek believes it is not required to charge other school districts the reimbursement rate set forth in Section 2561 of the School Code as tuition for students attending Millcreek's North Coast School (hereinafter "North Coast"). Millcreek has the authority, through proper school board resolution, to set the tuition charged for students placed at North Coast by area school districts and, through written agreement approved by the school board, to negotiate specific payment arrangements with those school districts. While Millcreek admits it was an oversight not to have the requisite resolutions and written agreements passed by the board of directors of Millcreek pertaining to North Coast in the years ending June 30, 1999 and 2000, that omission has been remedied as the appropriate resolutions and written agreement have been ratified and passed by the Millcreek board. . . .

\* \* \*

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 (Continued)**

It is important to understand that because North Coast is very non-traditional, and because it services a discrete, small portion of the traditional student population, it would not be economically viable for each of the participating school districts to create its own North Coast program. As is discernable from a review of the enrollment numbers from each of the participating districts, including the Millcreek School District, the demand for this service is low enough that each school district in the region could not create its own program. Economically, the most efficient (and feasible) way to offer the program was for one district to administer the program, and other districts to pay a fee to utilize the service. . . .

The auditors found fault with the fact that Millcreek did not charge the other area school districts the amount set by formula as provided in section 2561 of the School Code, 24 P.S. § 25-2561. If the Section 2561 formula is used, the auditors are correct that Millcreek failed to charge participating districts such as Erie, Harborcreek, Fairview and Wattsburg, a high enough rate. It is Millcreek's position, however, that Millcreek is not required to use the Section 2561 formula to calculate the rate charged to other districts participating in the North Coast program because school districts are authorized to contract for services for the benefit of their students, so long as those contracts are approved by their boards of directors.

\* \* \*

School boards certainly have the inherent right to enter into contracts to enable them to educate every person in a thorough and efficient manner, provided they have an affirmative vote of a majority of the school board. 24 P.S. § 5-508. The provision (or purchase) of a service for an agreed upon rate is exactly what transpired between Millcreek and the other participating districts. That rate was originally set by Millcreek at \$2,500 per slot. (A "slot" is a space for one student for 193 days, the length of the regular North Coast school year.) In following years, Millcreek negotiated different rates per slot with different school districts, depending on the number of slots for which that district was contracting. . . . These charges were paid in full by the participating districts. These charges, initially established by the Administration, have been ratified by the school board of directors of Millcreek. . . .



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 (Continued)**

\* \* \*

Millcreek recognizes it was in error for not having the school board approve the appropriate resolutions and written agreements at the time. That error has been remedied, and the error will not be repeated.

\* \* \*

[F]orcing the districts to pay the relatively high rate mandated by Section 2561 of the School Code would effectively put North Coast out of business, with the end result being lesser services offered to the unique students served by North Coast. The School Code authorizes school districts to enter into agreements for the provision and purchase of services and authorizes school districts to act jointly with other political subdivisions (which include school districts). The agreements between the districts were arms length transactions, negotiated and agreed upon by the respective administrations, and now, approved by the respective school boards. Millcreek was paid in full the rates negotiated. The school districts should not be precluded from continuing this efficient and innovative business relationship with each other which does nothing but benefit the students of each of the districts. . . .

Not only does the School Code authorize Millcreek to contract with other school districts for the services provided at North Coast, the School Code also specifically authorizes Millcreek to allow students from surrounding districts [to] attend a Millcreek school for any rate set by the Millcreek board. Section 1316 of the School Code provides: “The board of school directors of any school district may permit any nonresident pupils to attend the public schools in its district upon such terms, as it may determine, subject to the provisions of this act.” 24 P.S. § 13-1316. Accordingly, Millcreek had decided to permit nonresident pupils to attend North Coast, upon the terms discussed above. And, while the school board only recently approved the details of the rates charged, the board was certainly apprised and aware of the fact the North Coast program was open as a placement option for students residing in other school districts. . . .

\* \* \*

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 (Continued)**

Millcreek believes the tuition charge established in Section 2561 of the School Code applies in situations such as those described in Sections 1313 and 1314 of the School Code - i.e., those situations where the receiving district has no option but to accept the nonresident student or those situations where the sending district did not participate in the decision to send the student. In those “non-voluntary” situations, Section 2561 works as a safeguard, ensuring that the receiving district is wholly compensated for providing an education to the nonresident student. That safeguard is simply not needed when the sending and receiving districts (1) have participated in the decision to send and to receive the student, and (2) have previously negotiated at arms length the terms on which that student may attend the receiving district (such as rates charged for education services). In those situations, where the two districts involved have agreed to the arrangement to their mutual satisfaction and have complete, discretionary control over the placement of students, the more general language of Section 1316 of the School Code should apply. This describes exactly the situation between Millcreek and the Erie, Fairview, North East and Wattsburg school districts.

The Auditor General himself appears to agree that Millcreek is not obligated to charge other districts the rates in Section 2561 of the School Code if the districts have expressly agreed otherwise. Auditor General Casey stated in a press release: “If Millcreek is going to charge districts rates other than those set forth in the Public School Code, taxpayers should be made aware of the reasons for the rates, and the board of directors should vote on written agreements.” . . .

Since the Millcreek Township School Board has ratified by board resolution the rates charged to Fairview, Northeast and Wattsburg school districts, and since the Millcreek Township and City of Erie school boards have ratified a written contract memorializing the agreement reached between the districts in 1998-99 and 1999-2000, the Millcreek Township School District respectfully asserts it has effectively cured any problem or error noted by the auditors in finding No. 1, and that the rates charged to nonresident students attending North Coast School were appropriate and legal under the Pennsylvania Public School Code.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 1 (Continued)**

Auditor's Conclusion

The auditors do not dispute the educational effectiveness or value of the North Coast School. However, the fact that the district charged tuition rates for nonresident students of the North Coast School that are not based upon the operating expenditures of the Millcreek Township School District, as required by Sections 2562 and 2561 of the PSC, means that the residents of the Millcreek Township School District are subsidizing the education of neighboring school district students who attend the North Coast School. For the Millcreek Township School District, the tuition rate established by the PSC under Section 2561 for secondary students was \$6,494 for the 2001-02 school year and \$6,357 for the 2000-01 school year. These rates, set by Pennsylvania school law, approximate the cost of educating a student in the Millcreek Township School District for those years.

We agree that the Millcreek Township School District may enter into educational contracts with other school districts. But, these contracts cannot provide tuition to be paid that is contrary to law. That provision is left to be calculated as detailed in PSC, Section 2561. As the board and management stated in their response, Millcreek Township School District may allow residents of other school districts to attend Millcreek Schools, according to PSC, Section 1316. However, Section 1316 specifically states, "The board of school directors of any school district may permit any nonresident pupils to attend the pupil schools in its district upon such terms, as it may determine, subject to the provisions of this act" (emphasis added). The provisions regarding the terms of tuition, as we have previously stated, are detailed in PSC, Section 2561. The terms of tuition between school districts is mandated and not left to the discretion of the school districts. Further, the argument that PSC, Section 2561 only pertains to PSC, Sections 1313 and 1314 has no validity. Nowhere within PSC, Sections 2561, 1313, or 1314 does it state that PSC, Section 2561 is only to be utilized for Sections 1313 or 1314. Section 2561 is to be used in any district paid tuition calculation.

The district's response also stated that the error of not having the school board approve the appropriate resolutions and written agreement was remedied, and will be not be repeated. However, our review of the school board minutes noted no agreement approved between the School District of the City Erie and Millcreek Township School District for the 2000-01 and 2001-02 school years.

Finally, as for the district's statement that the prior Auditor General appeared to agree that Millcreek Township School District is not obligated to charge other districts the rates in Section 2561 of the PSC if the districts have expressly agreed otherwise, it is our contention that statements made to the press do not usurp the requirements of the law. Therefore, this finding will stand as presented.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 2 – Errors in Reporting Nonresident Pupil Membership Data Resulted in a Reimbursement Net Underpayment of \$9,671**

Our audit disclosed that pupil membership reports submitted to the Department of Education (DE) for the 2001-02 and 2000-01 school years were inaccurate. The inaccuracies resulted in the following net underpayment of tuition for children placed in private homes:

<u>School Year</u>	<u>(Over)/ Underpayments</u>
2001-02	\$ (6,494)
2000-01	<u>16,165</u>
Total	<u>\$ 9,671</u>

Pupil membership must be maintained in accordance with DE guidelines and regulations, since this data is a major factor in determining the district's payments from the state for tuition for children placed in private homes.

District personnel misclassified pupil membership for both years of audit, causing the over and underpayments.

The membership errors were caused by:

- reporting membership days for one nonresident student in both the district-paid tuition student and children placed in private homes categories; and
- crediting membership for some children placed in private homes to another school district that should have been credited to Millcreek Township School District.

DE has been provided reports detailing the membership errors for use in recalculating the district's payments for children placed in private homes.

Recommendations

District personnel responsible for compiling pupil membership data should strengthen procedures to help ensure that membership for all nonresident students is accurately reported to DE.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 2 (Continued)**

DE should amend the district's membership reports and adjust the district's allocations to correct the net underpayment.

Response of Management

Management provided a written response indicating agreement with the finding, and stating that management would recheck nonresident student lists to ensure their membership is reported correctly in the future.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 3 – Certification Irregularity**

Our review of the professional employees' certification for the period July 1, 2002 through July 31, 2004, disclosed one employee was assigned to a position outside the area of her certification. This was a continuation of a citation in the prior audit. (See Finding No. 2 in the "Status of Prior Years' Findings and Recommendations" section of this report.)

Section 1202 of the Public School Code provides, in part:

No teacher shall teach, in any public school, any branch which he has not been properly certificated to teach.

Section 2518 of the Public School Code mandates any school district that:

. . . has in its employ any person in a position that is subject to the certification requirements of the Department of Education but who has not been certificated for his position by the Department of Education . . . shall forfeit an amount equal to six thousand dollars (\$6,000) less the product of six thousand dollars (\$6,000) and the district's market value/income aid ratio. . . .

Information pertaining to the questionable assignment was submitted to the Bureau of Teacher Certification and Preparation (BTCPP), Department of Education (DE), for determination. On November 10, 2004, BTCPP determined that the employee was not properly certified. Consequently, the district is subject to subsidy forfeitures of \$3,636 for the 2003-04 school year and \$3,805 for the 2002-03 school year.

Recommendations

The district should ensure procedures are in place to compare a teacher's certification requirements to assignments the district intends to give the professional employee. Moreover, the board should require the individual to obtain proper certification for the assignment or reassign the individual to an area for which proper certification is held.

DE should adjust the district's future allocations to recover the subsidy forfeiture.

Response of Management

Management waived the opportunity to respond at the time of audit.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 4 – Internal Control Weaknesses Resulted in Charter School Tuition Overcharges and Overpayment of Charter Schools’ Reimbursement**

Our review of the Department of Education’s (DE) reconciliation of district payments made and amounts due for charter schools for the 2001-02 school year disclosed that DE overcharged the district \$16,142 in charter school tuition deductions. Additionally, as a result of the district’s failure to notify the Commonwealth of the tuition errors in a timely manner, the district incorrectly received \$4,843 in charter school expenditure reimbursement.

In August of 2002, DE established a reconciliation process by which costs for a school district’s students enrolled in charter schools not already paid by the students’ resident school districts are deducted by DE from the resident school districts’ payment of state allocations (Unipay) and paid to the charter schools.

Also, Section 2591.1 of the Public School Code, established by Act 88 of 2002, provides for the reimbursement of 30 percent of the total funding provided by school districts to charter schools and cyber charter schools for students enrolled in the 2001-02 school year.

Instructions issued by DE’s Bureau of Budget and Fiscal Management, included with the year end reconciliation data for specific charter schools, stated in part, “Within 20 days of the date of this letter, the school district can submit objections to the report . . . .” Furthermore, the instructions stated, “If no objections are received within 20 days, the net amount due to the charter school will be deducted from the school district’s next scheduled Unipay. Any amount due the district will be paid in the next scheduled Unipay.”

The reconciliation letter for Millcreek Township School District students attending the Einstein Academy Charter School was dated November 5, 2002. Listed on the reconciliation were two students who were actually from the Fairview School District, resulting in a tuition overcharge to Millcreek Township School District of \$11,638. The reconciliation letter for the PA Learners Online Regional Cyber Charter School was dated January 2, 2003, and listed one student who was actually from the School District of the City of Erie, resulting in a tuition overcharge to Millcreek Township School District of \$4,504.

The district should have notified DE, in both cases, that the students listed were not Millcreek Township School District students. The district failed to follow DE instructions regarding the timely notification of corrections needed on the reconciliations for Einstein Academy and PA Learners Online Regional Cyber charter schools.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 4 (Continued)**

On October 9, 2003, DE's Office of Chief Counsel wrote to the school district regarding possible objections to cyber charter school deductions and noting that "considerable confusion has surrounded the process." The letter again gave the district 20 days to respond. Although the district did respond on October 23, 2003, noting that the previously mentioned students did not belong to Millcreek Township School District, had they responded to the original reconciliation letters sent to them one year earlier, the inappropriate tuition would not have been deducted initially.

DE has been provided reports detailing the membership errors for use in recalculating the district's charter school reimbursement.

Recommendations

District personnel should establish internal review procedures to ensure the accuracy of tuition charges made by charter and cyber charter schools and that any corrections are made to DE within 20 days as required.

DE should adjust the district's reimbursement to correct the tuition overcharges. Additionally, DE should correct the Fairview School District and the School District of the City of Erie charter school deductions and reimbursements accordingly.

Response of Management

Management provided a written response disagreeing in part with the finding, stating:

On October 9, 2003, our district received a letter from the Office of the Chief Counsel, Commonwealth of Pennsylvania, Department of Education, 333 Market Street, Harrisburg PA 17126-0333 which stated, in part:

During the 2001-02 school year, you (or your solicitor) filed a petition or sent a letter to the Department of Education objecting to subsidy deductions from your school district for payment to one or more cyber schools.

Our goal now is to come up with simple, accurate, fair way to resolve specific objections school district may have concerning the 2001-02 deductions for cyber charter schools. To accomplish this goal, the Department will offer your district the opportunity to participate in the following review process as an alternative to the pursuit of potentially more protracted, more expensive formal proceedings.



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 4 (Continued)**

In accordance with the Department's published reconciliation guidelines, you will be asked to send whatever specific objections you wish to lodge, with supporting documentation, to the Department's Office of Chief Counsel within twenty days of your receipt of this letter.

When we became aware of a problem in 2002 we first called the Department of Education and then wrote them a letter to ask that a refund be provided for excess charter school payments withheld by the department.

When we received the letter from the Chief Counsel's [office] on October 9, 2003 we responded with an additional letter on October 23, 2003 listing the five specific students who were not residents of Millcreek Township School District and asked them to make a tuition adjustment and refund the improperly withheld subsidy. . . .

We do have an internal review procedure in place to ensure the accuracy of tuition charges made by charter and cyber schools and it works.

To date, however, the Department of Education has not responded to our requests or corrected the billing error.

Auditor's Conclusion

We agree that the district did notify DE in December of 2002; however, this was regarding a reconciliation for the Western Pennsylvania Cyber Charter School, which was dated November 15, 2002. Proper adjustments were made by DE through Western Pa Cyber School in December of 2002. We reiterate that if the district had properly notified DE in November of 2002 and in January of 2003 for the Einstein and PA Learner Charter Schools, respectively, the appropriate subsidy deductions would have been made. The district has given no reason why they addressed the Western Pa Cyber School's reconciliations errors in a timely manner, and did not address the Einstein and PA Learner Charter Schools' reconciliation errors in the same timely manner. Therefore, this finding will stand as presented.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 5 – Possible Improper Retirement Contributions**

Our review of the district’s administrative personnel payroll records and quarterly contributions for the 2001-02 and 2000-01 school years disclosed a \$4,800 annual payment to the superintendent might have been improperly reported to the Public School Employees’ Retirement System (PSERS) for retirement purposes.

For each school year, district personnel included in the superintendent’s wages \$4,800 for transportation expenses; the total was reported to PSERS for retirement purposes.

The Public School Employers’ Retirement Board’s Regulations, 22 PA Code, Section 211.2, defines compensation, stating that compensation excludes:

. . . any bonus, severance payment or other remuneration or similar emoluments received by a school employee during his school service not based on the standard salary schedule for which he is rendering service. . . .

PSERS has been provided a report detailing the transportation expense payments, and will make the final determination of the propriety of the reimbursement contributions.

Recommendations

PSERS should review the total compensation reported for the superintendent and render an opinion on the propriety of the amount of compensation reported for retirement.

If PSERS determines that the amount of compensation reported was improper, the board should require district personnel responsible for reporting compensation for retirement to implement written procedures that will assist in ensuring that only employee compensation eligible for retirement is reported to PSERS. Additionally, a review should be performed of subsequent years’ contributions to ensure correct contributions were submitted to PSERS.

If the payments are determined to be ineligible for retirement, PSERS should make the necessary corrections to pension benefits and contributions.

Furthermore, for the 2001-02 and 2000-01 school years, the district received direct payments for the Commonwealth’s share of employer’s retirement contributions. Therefore, the Department of Education, in conjunction with PSERS’s determination of the propriety of wages reported for retirement, should determine if the district received an overpayment in retirement subsidy, and make any necessary adjustments.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 5 (Continued)**

Response of Management

Management provided a written response indicating disagreement with the finding but providing no further comment.

Auditor's Conclusion

PSERS will make final determination of the possible improper retirement wages. Therefore, this finding will stand as presented.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 6 – Internal Control Weaknesses Noted in Student Activity Funds Operation**

Our review of the district’s three middle schools’ student activity funds for the 2003-04 school year disclosed weaknesses in the management and control of the funds. As a result of weaknesses in internal control, the following conditions existed:

- booster organization money remained in the school safe in the amount of \$2,000;
- unused monies remain in 13 inactive student activity accounts;
- negative balances in two accounts;
- sales tax was not remitted for sales from two school stores; and
- two accounts were general fund in nature.

Section 511 (a) of the Public School Code (PSC) provides, in part:

The board of school directors in every school district shall prescribe, adopt, and enforce such reasonable rules and regulations as it may deem proper, regarding (1) the management, supervision, control, or prohibition of exercises, athletics, or games of any kind, school publications, debating, forensic, dramatic, musical, and other activities related to the school program, including raising and disbursing funds for any or all such purposes and for scholarships, and (2) the organization, management, supervision, control, financing, or prohibition of organizations, clubs, societies and groups of the members of any class or school . . . .

Booster Organization Money Remained in the School Safe

Monies raised in the amount of \$2,000 by the Walnut Creek Football Boosters was placed in the safe at the Walnut Creek Middle School over the summer of 2004. These monies were intended to be used to pay for a year-end banquet, hooded sweatshirts, and coach’s and manager’s gifts and were expected to be totally expended by the end of November of 2004. To better safeguard these monies, they should have been deposited into a separate account maintained by the football boosters.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 6 (Continued)**

Board Policy #618 states, in part:

Funds collected shall be turned in to the Building Principal before the end of each school day and deposited daily if the total exceeds \$100.

The boosters knew that the money was going to be expended shortly after the beginning of the 2004-05 school year and felt it was easier to leave the money in the safe over the summer. In addition, the district does not have any policies specifically regarding the handling of booster organization monies.

Unused Monies in 13 Inactive Student Activity Accounts

There was no activity in 13 student activity accounts during the 2003-04 school year.

Board Policy #618, paragraph 9, states,

If a student activity/club ceases to exist, it is the responsibility of the custodian to return to the students those monies which are in the account/fund for that particular activity/club. If the money cannot be given back to the students, then the Student Council can vote to have this money disbursed in any way it sees fit. The custodian cannot arbitrarily transfer the monies to another student activity.

The activity fund bookkeeper failed to adhere to district policies and procedures. Additionally, district personnel failed to follow verbal comments made during our prior audit.

When inactive student activity accounts remain on the books, bookkeeping costs increase and student activity accounts become susceptible to misuse.

Negative Balances in Two Accounts

Our review disclosed negative cash balances in two student activity accounts in the 2003-04 school year.

Board Policy #618, paragraph 17, states, "Deficit spending is not permitted by an activity/Club at any time." Section 511 of the PSC does not make provisions for the maintenance of student activity accounts with negative balances. The operation of student activity accounts with negative cash balances is an unsound business practice and teaches students poor fiscal management.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 6 (Continued)**

The activity fund bookkeeper failed to adhere to district policies and procedures. Additionally, district personnel failed to follow verbal comments made during the prior audit.

Monies from other student activity accounts had to be used to cover the shortfalls in these student activity accounts. The resources and obligations of each student activity account should be maintained separately, detailing the receipts, expenditures and balances of each student activity account. Cash balances in one student activity account should not be used to offset a negative balance in another student activity account.

Sales Tax Not Remitted for Sales from Two School Stores

Our review of the taxable sales at two of the middle schools' school stores disclosed that the district did not remit to the Department of Revenue (DR) the sales tax collected on taxable sales made by students during 2003-04. Walnut Creek Middle School had taxable sales totaling \$1,660 and should have remitted \$100 to DR. J.S. Wilson Middle School had taxable sales of \$366 and should have remitted \$22 to DR.

Activity fund bookkeepers noted they forgot to remit the taxes at the end of the school year.

DR's Retailer's Information Guide states in part 3, Collection of Tax:

A seller is liable for reporting and remitting taxes and fees with the tax return covering the period in which either a taxable sale was made or the tax or fees should have been collected. The seller may be assessed for failure to collect taxes and fees plus charges for appropriate interest and penalties.

Two Accounts Were General Fund in Nature

The district commingled monies that should have been accounted for in the general fund with student activity fund accounts. These non-student monies were not as a result of the fund raising efforts of a student organization. These monies included, but were not limited to, a purchase of a salad bar and miscellaneous items, and the purchase of "Student Supply Packs" which can be purchased by the parents. These monies should have been accounted for in the general fund.

The activity fund bookkeeper did not realize that the expenditures were of a general fund nature.

Board Policy #618, paragraph 24, provides:

Expenditures of a general fund nature are not permitted.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Finding No. 6 (Continued)**

Recommendations

District personnel should:

- develop written procedures for the handling of booster organization monies;
- close out inactive student activity fund accounts in accordance with board policy;
- require all individual activity clubs to have sufficient monies prior to processing disbursement vouchers;
- remit to DR all necessary taxes due on taxable sales from the school stores; and
- require building principals to cease making general fund purchases from the student activity fund.

Response of Management

Management provided a written response indicating agreement with the finding. Management also detailed corrective actions already taken, including closing inactive accounts, paying required taxes to DR, and advising activity advisors of the need to document student involvement.

Auditor's Conclusion

We noted that the district began taking corrective actions during fieldwork as a result of the weaknesses disclosed by our audit. We will fully review the effectiveness of the corrective actions during the next audit of the district.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Observation - National School Fitness Foundation**

The Millcreek Township School District entered into a contract with the National School Fitness Foundation (NSFF), a public not-for-profit organization, of American Fork, Utah, on November 25, 2002. The contract was for the purchase of a fitness program, including curriculum, exercise equipment, staff training, and certification, designed to reverse alarming national trends in obesity, inactivity, and declining health patterns of school age youth. NSFF had informed the district that the fitness program's costs would be offset by voluntary contributions from NSFF to the district. The district consulted with its solicitor regarding the proposal.

Based on the representations made by NSFF, the district borrowed \$155,787 from a local financial institution in December of 2002 and placed the fitness equipment in service at two school buildings on December 19, 2002. The district did not obtain competitive bids for the exercise equipment. Both board policy and Section 807.1 of the Public School Code require that competitive bids be obtained for equipment and supplies costing \$10,000 or more. Furthermore, although a proposal for the project was approved by the board on November 25, 2002, the formal leasing agreement, although signed by the board president, was never formally approved by the board.

As of December 2004, the district paid \$113,597 in principal and interest on the loans. The district also received \$63,487 in voluntary contributions from NSFF over a fourteen-month period.

The voluntary contributions from NSFF to the district ceased in March of 2004. On June 1, 2004, NSFF filed for Chapter 11 bankruptcy reorganization protection. NSFF also fired its president because he was accused of misappropriating \$5 million in foundation funds. On July 26, 2004, the United States Attorney for the District of Minnesota announced that the owner and president of a major supplier of fitness equipment to NSFF, School Fitness Systems (SFS), pled guilty to bank fraud, mail fraud, and wire fraud in a scheme to defraud Minnesota financial institutions and school districts of more than \$1 million.

The owner and president of SFS admitted the following in court regarding the Minnesota scheme: (1) he and others engaged in a scheme to defraud six financial institutions and Minnesota school districts; (2) he knew that school districts relied heavily on the representations made by NSFF that schools could obtain fitness equipment for "free" based on NSFF contributions back to school districts; (3) NSFF's financial position was precarious, but he failed to tell that to prospective school district purchasers and associated financial institutions; and (4) the frequently mentioned contributions by NSFF to earlier school district purchasers had almost exclusively been paid for through the use of payments made by subsequent school district purchasers, and not from private donations or government grants as claimed.

The United States Attorney for the District of Minnesota is continuing to investigate this matter.



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
FINDINGS, OBSERVATION AND RECOMMENDATIONS

**Observation (Continued)**

Recommendations

The district should exercise caution and due diligence in the future when considering purchases of this nature, particularly when representations are made that the costs would be offset so that acquisition of the program and equipment would be “free.”

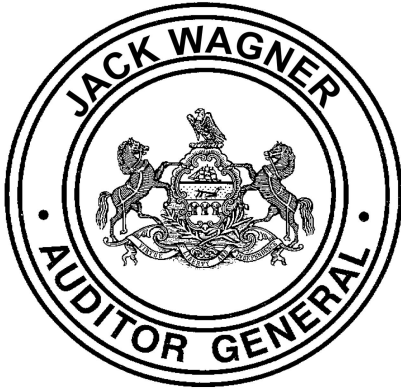
The board should ensure that bidding procedures required by its policy and the Public School Code are followed.

Response of Management

Management provided a response disagreeing with the observation in that management believed bidding was not required, since it regarded NSFF as the “sole source” for the equipment, as indicated on a form provided to the auditors.

Auditor’s Conclusion

The “sole source” form was provided to the district by the vendor, NSFF. The district’s business manager attests on the form that “We have previously contacted all applicable local physical fitness equipment companies and educational publishers in search of comparable programs, and found that there are no other programs available that compare with the comprehensive package of the NSFF.” The form is signed and dated November 1, 2002. However, the district provided no concrete source documentation indicating that any other vendors were contacted to see if comparable equipment was available. Therefore, this observation will stand as presented.



MILLCREEK TOWNSHIP SCHOOL DISTRICT  
STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

The following is a summary of the findings and recommendations presented in the June 30, 2000 and 1999 audit report, along with a description of the school board's disposition of each recommendation. The status of each recommendation was determined by one or more of the following procedures:

- review of the board's written response, dated October 27, 2003, to the Labor, Education, and Community Services, Comptroller's Office, replying to the Auditor General's June 30, 2000 and 1999 audit report;
- tests performed as a part of, or in conjunction with, the current audit; and
- questioning of appropriate district personnel regarding specific prior years' findings and recommendations.

**Finding No. 1 – Unrecovered Tuition Totaling \$206,184**

Our review of the district's 1999-2000 and 1998-99 tuition billings for nonresident secondary students who attended the district's alternative education program at North Coast School disclosed district personnel failed to bill the School District of the City of Erie tuition of \$162,036, and they also under billed three other districts tuition of \$44,148.

We recommended that the board require district personnel to bill the nonresident students' districts of residence for education services provided by the district at the approved tuition rate provided under Section 2561 of the Public School Code (PSC). We also recommended district personnel familiarize themselves with the PSC regarding nonresident student tuition. Lastly, we recommended the board review the program and prepare written agreements and/or contracts with all districts involved.

The board, in its written response, disagreed with the conclusions of the Auditor General. The board's entire response was reiterated as management's response to Finding No. 1 in the current section of this audit report, where it has been included.

On October 20, 2003, the district retroactively approved written agreements and contracts with all districts involved. However, tuition errors continued for the current audit years, as detailed in Finding No. 1 of the current section of this audit report.

Based on the results of our current audit, we concluded that the Millcreek Township School District did not appropriately address this prior audit finding.

MILLCREEK TOWNSHIP SCHOOL DISTRICT  
STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Certification Irregularities**

Our review of the professional employees' certification for the 2001-02 school year disclosed that three professional employees might have been assigned to positions outside the areas of their certification, and one teacher's certification might have lapsed.

We recommended that the district, in conjunction with the Bureau of Teacher Certification and Preparation (BTCPP), Department of Education's (DE) determination about the assignments in question, ensure that procedures are in place to compare a teacher's certificate to the certification requirements of the assigned positions. Moreover, we recommended, if BTCPP determined the teachers cited in the finding were not properly certified, that the board require the individuals to obtain proper certification for the assignments or reassign them to an area for which they are properly certified.

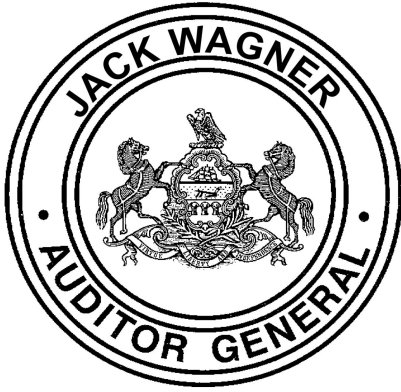
We also recommended that DE adjust the district's allocations to assess the appropriate subsidy forfeiture, in accordance with BTCPP's determination.

The board, in its written response, stated that the district initiated discussions with BTCPP with respect to the possible certification irregularities. The board stated that corrective action for one citation was approved by DE, and the other three possible citations would be pursued until the appropriate corrective actions were completed.

Subsequent to the completion of fieldwork for our current audit, on February 10, 2005, BTCPP made its final determination on the prior audit's possible certification irregularities. BTCPP deleted two of the citations and upheld the other two. We again recommend that DE assess the appropriate subsidy forfeiture.

Our current audit disclosed that one of the two individuals for whom BTCPP upheld the citations received appropriate certification as of September 1, 2002. The remaining individual cited continued to serve in a position for which she was not certified during the 2003-04 and 2002-03 school years; this is the subject of Finding No. 3 in the current section of the report.

Based on the results of our current audit, we concluded that the Millcreek Township School District did not completely address this prior audit finding.



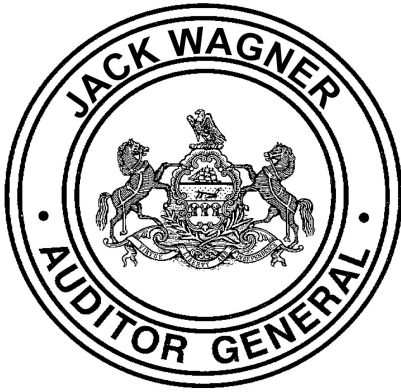
MILLCREEK TOWNSHIP SCHOOL DISTRICT  
APPENDIX

[UNAUDITED]

**Schedule of State Revenue**

The district reported state revenue of \$18,296,279 and \$18,736,975, respectively, for the years ended June 30, 2002 and 2001, as detailed in the following schedule:

<u>STATE REVENUE</u>	<u>2002</u>	<u>2001</u>
Basic Education	\$ 9,956,514	\$ 9,712,118
Read to Succeed	142,860	142,860
Charter Schools	6,163	-
School Performance Incentives	2,046	251,998
Tuition for Orphans and Children		
Placed in Private Homes	116,450	109,634
Homebound Instruction	1,701	3,014
Vocational Education	151,332	225,474
Alternative Education	80,960	87,587
Driver Education	-	126
Migratory Children	-	240
Special Education	3,057,711	2,946,592
Transportation	1,544,233	1,537,819
Rental and Sinking Fund Payments	1,209,991	1,250,755
Health Services	193,306	196,590
Safe Schools	24,200	38,610
Social Security and Medicare Taxes	1,282,486	1,262,252
Retirement	182,164	288,159
Technology Grants	222,567	-
Other Program Subsidies/Grants:		
Sam Project	-	2,500
Paths	40,924	62,864
Teenage Pregnancy & Parenting	9,800	9,800
Environmental Education	-	10,000
Students & Teachers on Presque Isle	-	7,500
Drug Abuse Resistance Education	22,211	15,986
Individuals with Disabilities Education Act	-	574,497
Library Services Technology	48,660	-
<b><u>TOTAL STATE REVENUE</u></b>	<b><u>\$18,296,279</u></b>	<b><u>\$18,736,975</u></b>





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Mr. John Godlewski, Director  
Department of Education  
Bureau of Budget and Fiscal Management  
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Harrisburg, PA 17126

The Honorable Robert P. Casey, Jr.  
State Treasurer  
Room 129 - Finance Building  
Harrisburg, PA 17120

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